MID-YEAR FINANCIAL REPORT

2023

Statutory Declaration of Persons Responsible for the Philip Morris ČR a.s. Mid-Year Financial Report

We confirm that to the best of our knowledge, the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position, and financial results of Philip Morris ČR a.s., and its consolidated group and the description pursuant to Section 119 (2) (b) of Act No. 256/2004 Coll., on business activities on the capital market, as amended, contains a faithful summary of the information required under this provision.

In Kutná Hora on September 26, 2023

Andrea Gontkovičová
Chairperson of the Board of Directors
Philip Morris ČR a.s.

Anton Stankov
Member of the Board of Directors
Philip Morris ČR a.s.

Table of Contents

Company Profile and Important Events in the First Half of 2023

About us

We are Philip Morris ČR a.s., an affiliate of Philip Morris International Inc. (PMI). We spearhead the transformation of the nicotine industry by providing adult smokers who would otherwise continue to smoke or use nicotine with innovative smoke-free alternatives that reduce or have the potential to reduce risk compared to smoking tobacco.

Since 2017, we have been offering our adult consumers a wide portfolio of innovative smoke-free products, which we are constantly expanding. In the Czech Republic and Slovakia, we distribute the heated-tobacco solutions, *IQOS ILUMA* with *TEREA* consumables, KT&G-licensed *lil SOLID* with *Fiit* consumables, as well as *HEETS* consumables for original *IQOS* devices. At the same time, we distribute electronic cigarettes *VEEV ONE* and *VEEV NOW*[1] and provide a variety of related accessories and services to adult nicotine users. We are also providing adult smokers with popular international and local brands such *Marlboro*, *L&M*, *Chesterfield*, *Petra Klasik*, *Sparta*, *RGD* or *Start by Chesterfield*.

Philip Morris ČR a.s. is listed on the Prague Stock Exchange (Burza cenných papírů Praha) and holds a 99% interest in Philip Morris Slovakia s.r.o., registered in the Slovak Republic.

Philip Morris ČR a.s. runs the production plant in Kutná Hora, which has a tradition of more than two hundred years of tobacco processing. Today, the plant is one of the most modern and efficient operations, which is as environmentally friendly as possible.

In the Czech Republic and Slovakia, PMI employs more than 1,300 employees, who make a significant contribution to the company's development and transformation. For this reason, we continuously strive to further improve our inclusive and high-standard work environment. We aim to offer the best possible conditions, so that every employee can fully meet her or his potential. Being awarded the EQUAL SALARY certification in both countries validates our high performance in this area.

Being part of a leading global leading tobacco company, we keep focus on sustainability in any part of our business. We are mindful of and committed to our responsibility towards communities and environments in which we operate. We work hard to address sustainability issues that are material to us. At the same time, we have been contributing significantly to charitable projects across a wide range of organizations and specializations, including social programs aimed at improving living conditions in local communities.

[1] *Introduced in February 2023 under the name VEEBA.*

Consolidated Highlights

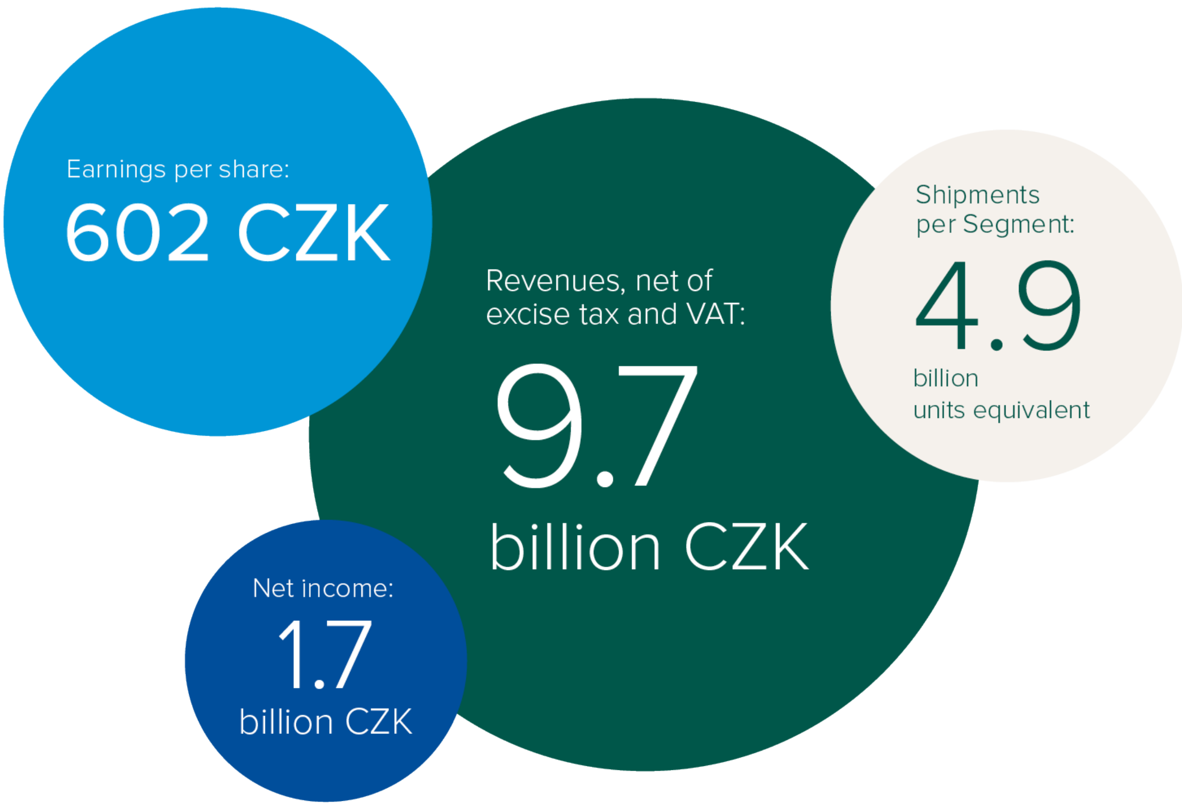
Key Financial Results (in CZK million)

Period ended June 30	2023	2022	Change in %
Revenues, net of excise tax and VAT	**9,711**	**9,810**	**(1.0)**
Profit from operations	**1,826**	**2,119**	**(13.8)**
Profit before income tax	**2,017**	**2,266**	**(11.0)**
Net income	**1,653**	**1,830**	**(9.7)**
Earnings per share (CZK)	**602**	**666**	

Shipments per Segment (in billion units equivalent)[2]

Period ended June 30	2023	2022	Change in %
Czech Republic	3.1	3.5	**(10.9)**
Slovakia	1.8	2.0	**(9.3)**
Total	**4.9**	**5.5**	**(10.3)**

Note: Values presented in the report might not foot to totals due to rounding.



[2] *Shipments in the Czech Republic include cigarettes and other tobacco products such as cigarillos, tobacco for make-your-own cigarettes (0.73 g is equivalent to 1 cigarette) and volume tobacco for make-your-own cigarettes (0.60 g is equivalent to 1 cigarette), as well as heated tobacco units. Shipments in Slovakia include cigarettes and heated tobacco units. Heated tobacco units is the term we use to refer to heated tobacco consumables, which include HEETS, TEREA, as well as the KT&G' licensed brands, Fiit.*

Overview of Selected Events in the First Half of 2023

January

- In the first half of the year, **another eight specialized "Káva s sebou"** ("Coffee Take Away") **locations were opened in the Czech Republic**. These are specialized places offering premium coffee and complete service for *IQOS* adult consumers, including the possibility of recycling end-of-life devices or used refills. Such a place can be newly used, for example, in Český Krumlov, Dvůr Králové, Kopřivnice, Tábor, Klatovy, Mělník, Kladno or Slaný.
- As part of streamlining our cigarette offer, **the portfolio was adjusted for several variants of our brands**. For the *Chesterfield Crown*, we reduced the number of sticks in the box from 23 to 22 pcs and from 28 to 25 pcs, and at the same time we introduced an improved box design for the *Chesterfield Tuned Bright* variant in order to make the product more visible. At the turn of the year, we stopped selling several variants of the *L&M* brand (*L&M FIRST CUT BLUE KS/100s* and *L&M FIRST CUT RED KS/100s*) and the *RGD 100s* brand (*BLUE* and *RED*).

February

- ***Marlboro Crafted*, a new product line of the *Marlboro* brand was introduced** to the Czech market in a super low price segment. Adult smokers will find this range in *RED KS/100s* and *GOLD KS/100s* variants. The novelty offers the quality of the *Marlboro* brand at a more affordable price, which made it an instant success among price-sensitive smokers.
- **We launched a new category of vaping products** under the *VEEBA*[3] brand, premium disposable e-cigarettes without the need to clean, charge and refill e-liquid. A total of 7 flavours were launched.

March

- **Philip Morris ČR a.s. announced its 2022 annual financial results**. Consolidated revenues, net of excise tax and VAT totaled CZK 20.9 billion, i.e. 11% more than in 2021. Consolidated net profit increased by 3.4% year-on-year to CZK 3.6 billion. Sales of heated tobacco products and products intended for smoking in the Czech Republic and Slovakia reached a total volume of 11.2 billion units.
- Joint-stock company **NEVAJGLUJ a.s. was registered** in the Commercial Register and in July it submitted an application to the Ministry of the Environment of the Czech Republic **for authorization to operate a collective system** (EPR system). Philip Morris ČR a.s., in accordance with the requirements of Act No. 243/2022 Coll.[4], became one of the founders of NEVAJGLUJ a.s. with a stake of 24%.

April

- **The Annual General Meeting of Philip Morris ČR a.s. was held on April 28, 2023**, in Kutná Hora. Based on the company's financial results, the general meeting, among other things, approved a dividend for the past year in the amount of CZK 1,310 per share, which is the third highest in the company's history.
- Two completely **new *IQOS* boutiques were opened**, in February in Slovakian OC Galéria Lučenec and in April in OC Futurum in Hradec Králové. These play an important role in realizing our vision of a smoke-free future, offering the full *IQOS* brand experience to current adult users and serving as a showcase for our alternative smoke-free products for adult smokers who would otherwise continue to smoke.
- On the occasion of the 50th anniversary of the world's best-selling brand *Marlboro*, **we launched a limited-edition *Marlboro* with three different designs** of the standard *RED* and *GOLD* variants. Each box captured iconic moments from the Marlboro story - from the era of unbridled cowboys through motorsport legends to today's adrenaline hunters.

---

[3] *From August 2023, the product is available under the name VEEV NOW.*

[4] *Act. No 243/2002 Coll. on the reduction of the impact of certain plastic products on the environment.*

- At the same time, in April, the sale of the *L&M FORWARD KS* variant was discontinued.

June

- The management of the company and the Trade Union representing the company's employees **concluded negotiations on a new collective labour agreement for the next three years**, until 30 June 2026. The new agreement provides employees with conditions within the scope of the previous agreement. With the benefits offered, Philip Morris ČR a.s. continues to rank among the most attractive employers in the region and in the whole of the Czech Republic.
- 2 new flavours ***Fiit Change Valley* and *Fiit Change Beach* have been introduced** for *lil SOLID* devices. These are limited edition flavours with a capsule.
- For the variants of the *L&M LINK SSL BLUE AND VIOLET* cigarette brand, **we introduced a novelty,** a colorful design of the mouthpiece paper in new colours.
- Philip Morris International **announced a planned investment exceeding CZK one billion to the plant in Kutná Hora**, which has long been one of the company's key production locations. In addition to the existing production of classic products, it will build a new infrastructure for the production of consumables for smoke-free devices, including new laboratories.
- The first limited edition of the *IQOS ILUMA* device, ***IQOS ILUMA WE Limited Edition*,** was presented at the 58th Karlovy Vary International Film Festival (KVIFF).
- A **nationwide project for the collection and subsequent recycling of used consumables into smoke-free products from *IQOS* expanded** significantly during the first half of the year. In June alone, 1.6 tons of used consumables were returned to our specialized locations in the Czech Republic, and 1.2 tons in Slovakia. **In the first half of the year, our adult consumers handed over a total of 8.8 tons of used consumables in both countries**. Its processing is provided by the company EcoButt in Slovakia, which transforms this material into an admixture for asphalt mixtures. In the Czech Republic, in addition to the planned cooperation with the Slovak recycler, research on use of collected consumables is being carried out with selected universities and other scientific workplaces.

Business Results in the First Half of 2023

Consolidated Financial Results

Our performance in the first half of 2023 was influenced by a challenging operating environment, given the current macroeconomic landscape, and persisting global inflationary pressures.

Despite the above-mentioned headwinds, our total *IQOS* adult users[5] in both countries combined, reached approximately 940 thousand, of which approximately 680 thousand adult users have switched to *IQOS* and stopped smoking.[6]

Excluding the impact of currency, consolidated revenues, net of excise tax and VAT, remained flat (vs. the first half of 2022). On a reported basis, consolidated revenues, net of excise tax and VAT, decreased by 1.0% or CZK 0.1 billion to CZK 9.7 billion. This was primarily driven by lower combustible portfolio[7] sales volumes (CZK 0.6 billion), reflecting total market contraction, negative pricing on *IQOS* devices (CZK 0.2 billion) and currency impact (CZK 0.1 billion), partially offset by higher sales of smoke-free products[8] (CZK 0.2 billion), favourable pricing on our combustible portfolio (CZK 0.4 billion) and higher manufacturing services (CZK 0.2 billion).

Profit from operations of CZK 1.8 billion decreased by 13.8% (vs. the first half of 2022) mainly due to higher manufacturing costs impacted by inflation. Excluding the impact of currency, profit from operations decreased by 12.8%. Finance income increased by CZK 0.1 billion due to higher return on cash and cash equivalents in the current higher interest rates environment.

Net income of CZK 1.7 billion decreased by 9.7% (vs. the first half of 2022), reflecting the items noted above.

Business in the Czech Republic

Domestic revenues, net of excise tax and VAT, decreased by 1.1% (vs. the first half of 2022) to CZK 5.8 billion driven mainly by lower combustible portfolio sales (CZK 0.4 billion), partially offset by higher sales of smoke-free product portfolio (CZK 0.2 billion) and favourable net pricing (CZK 0.1 billion).

The *IQOS* adult user base[9] increased to around 630 thousand adult users.

The total combined market of cigarettes and heated tobacco units decreased by an estimated 9.8% (vs. the first half of 2022) to 7.7 billion units. The total cigarette market has decreased by an estimated 12.7% to 6.4 billion units primarily driven by border sale deterioration and underlying lower consumption, as well as switching to smoke-free alternatives.

---

[5] *Estimated number of IQOS adult users that used PMI heated tobacco products (HEETS, TEREA and Fiit) over the past seven days. The above IQOS user metrics reflect Philip Morris estimates, which are based on consumer claims and sample-based statistical assessments with an average margin of error of +/-5% at a 95% Confidence Interval. The accuracy and reliability of IQOS user metrics may vary based on individual market maturity and availability of information.*

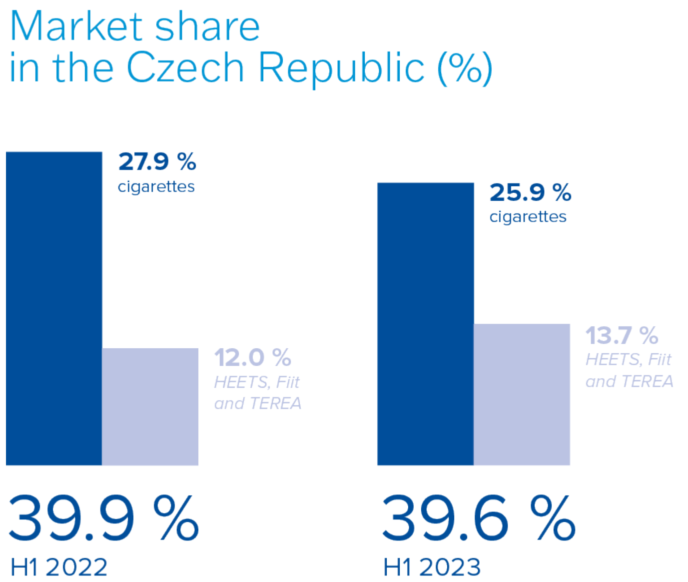
[6] *Estimated number of IQOS adult users, whose daily individual consumption of heated tobacco products represents the totality of their daily tobacco consumption in the past seven days of which at least 70% are PMI heated tobacco products (HEETS, TEREA and Fiit).*

[7] *Combustible portfolio includes cigarettes, cigarillos, tobacco for make-your-own cigarettes and volume tobacco for make-your-own cigarettes.*

[8] *Smoke-free products include heated tobacco units as the term we use to refer to heated tobacco consumables, which include HEETS, TEREA, and the KT&G' licensed brands, Fiit, as well as electronic cigarettes such as VEEBA, VEEV ONE and VEEV NOW.*

[9] *Sources: IQOS adult user panel, Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. internal estimates.*

The estimated combined market share of Philip Morris ČR a.s. decreased by 0.3 share points (vs. the first half of 2022) to 39.6%. On cigarettes the decrease of 2.0 share points is mainly driven by continuous switching of adult smokers to smoke-free alternatives, however also impacted by the annualization of the *Philip Morris* brand discontinuation and its merger into *Chesterfield* in Q2'2022, and annualization of production constraints we faced in 2022. On heated tobacco units, the growth of 1.7 share points reflects the consumer driven market dynamics to look for smoke-free alternatives.



Source: Philip Morris ČR, a.s. internal estimate based on a monthly tabulation of cigarette sales data by PwC

Combustible portfolio shipments (cigarettes and fine-cut tobacco, combined) of Philip Morris ČR a.s. decreased by 0.4 billion units (vs. the first half of 2022) to 2.0 billion units, reflecting the decline in total market and lower market share. Our heated tobacco consumables shipments increased by 26 million units and reached 1.1 billion units in the same period, with the organic growth being partially offset by trade inventory movements.

IQOS VEEV with *VEEV* pods and newly launched *VEEBA*[10], the electronic cigarettes, have had an immaterial impact on the financial results, albeit already demonstrating positive consumer feedback.

Business in Slovakia

Philip Morris Slovakia s.r.o. revenues, net of excise tax and VAT, decreased by 10.1% (vs. the first half of 2022) to EUR 105 million, driven by lower combustible and smoke-free product sales (EUR 7.1 million and EUR 1.5 million respectively), partly offset by favourable net pricing (EUR 1.0 million).

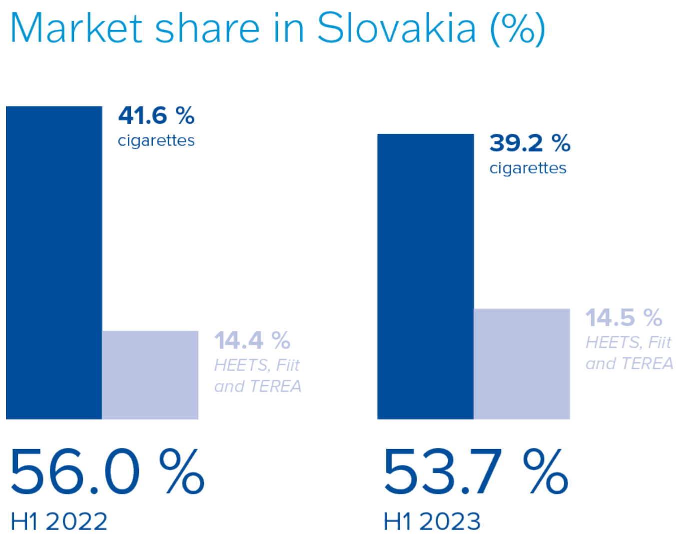
The *IQOS*[11] adult user base increased to an estimated 310 thousand adult users.

[10] *From August 2023, the product is available under the name VEEV NOW.*

[11] *Sources: IQOS adult user panel, Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. internal estimates.*

The total combined market of cigarettes and heated tobacco units decreased by an estimated 5.5% (vs. the first half of 2022) to 3.4 billion units. The total cigarette market has decreased by an estimated 6.3% to 2.9 billion units primarily driven by underlying decline in consumption, as well as switching to smoke-free alternatives.

The combined market share of Philip Morris Slovakia s.r.o. decreased by 2.3 share points (vs. the first half of 2022) to 53.7%. On cigarettes the decrease of 2.4 share points is mainly driven by underrepresentation in the growing more affordable segment, together with continuous switching of adult smokers to smoke-free alternatives, partially offset by slight growth of 0.1 share points on heated tobacco units.



Source: Philip Morris Slovakia, s.r.o. internal estimate based on a monthly tabulation of cigarette sales data by PwC

Domestic combustible portfolio shipments of Philip Morris Slovakia s.r.o. slightly decreased by 0.2 billion units (vs. the first half of 2022) to 1.3 billion units, reflecting the decline in total market and lower market share, while the heated tobacco consumables shipments slightly decreased by 27 million units to 0.5 billion units in the same period, impacted by trade inventory movements.

IQOS VEEV with *VEEV* pods and newly launched *VEEBA*, the electronic cigarettes by *IQOS*, have had an immaterial impact on the financial results, albeit already demonstrating initial positive consumer feedback.

Manufacturing Services

Revenues from manufacturing services increased by 17.0% (vs. the first half of 2022) to CZK 1.3 billion mainly due to continuation of higher export production volume impacted by suspended PMI operation in Kharkiv.

Risk Factors Related to Our Business and Industry

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this 2023 Mid-year Financial Report as well as with the risk factors described in 2022 Annual Financial Report of Philip Morris ČR a.s.

Any of the following risks could materially adversely affect our business, our operating results, our financial condition, and the actual outcome of matters as to which forward-looking statements are made in this report.

We are aware of the risks impacting our business and taking appropriate actions to mitigate them.

Overall Business Risks

We may be unsuccessful in our attempts to further scale up our smoke-free products (SFP) and encourage current adult smokers who would otherwise continue to smoke to switch to SFP, thus not succeed in our strategic transformation towards smoke-free future. This can be influenced by several factors:

- established legal base for SFP commercialization,
- possibility to communicate the scientifically substantiated information with consumers,
- intense and highly competitive environment,
- lower predictability of changes in consumer preferences and/or purchasing behaviour,
- our ability to attract and retain the best talents due to limited employer attractiveness of tobacco and nicotine industry.

Our profitability, and consequently, the amount of our dividend pay-out reflects our dual role of being a full risk entrepreneur of combustible portfolio products and a limited risk distributor for SFP, which is influenced by:

- declining consumption of combustible tobacco products,
- lost revenues due to illicit trade, including counterfeit, contraband and cross-border purchases.

Risks Related to Strong Regulations within our Industry

Tobacco and nicotine industry is highly regulated and is subject to significant governmental actions aiming to reduce and/or prevent smoking and usage of tobacco products. Their abrupt changes can have a significant impact on consumer preferences and their late communication can cause disruption in the production and our products availability in the market. These represents a wide variety of regulations:

- tobacco excise tax increases and the introduction of excise tax on other nicotine containing products,
- tobacco products regulation, including requirements for packaging, health warnings and characterising flavours,
- tracking and tracing of tobacco products,
- regulation related to the use of single-use plastics in our products.

Risks Related to Other External Factors

We also face risk factors arising from adverse developments in the external environment, such as, but not limited to:

- natural disasters, pandemics, armed conflicts, or adverse political developments could disrupt our supply chain, manufacturing capabilities, materials availability, and distribution channels,
- the overall macroeconomic situation, GDP development, inflation, fluctuating energy prices are impacting our cost base as well as influencing our revenues,
- cyber security threats, which could undermine our data protection efforts.

More detailed explanation about the risks above can be read in our 2022 Annual Financial Report on pages 34–35. Additional information regarding regulations and other external factors is available further in this report.

External Factors with Impact to Our Business and Industry

Impact of Russia's Invasion of Ukraine

The war in Ukraine continues having impact on Philip Morris ČR a.s. operations.

While the issues with unavailability of certain products caused by production suspension in Kharkiv factory as well as production disruption in other factories due to materials shortages (partially those sourced from Ukraine and Russia) were solved and the situation stabilized in Q4 2022, the rapidly rising energy and other input prices are having significant impact on our costs in 2023.

Natural gas and electricity are the main source of energy in our production plant in Kutná Hora. For 2022 we had the energy prices fixed, thus not having significant impact on our financials. However as of 2023 the related prices tripled despite the Government interventions in the form of established price caps and compensation of the price differences to energy suppliers[12]. The total utilities cost increase in the first half of 2023 represents around CZK 80 million and we expect a similar impact in the second half of the year. The investments we made last year to energy consumption related projects are not able to fully compensate for such a high price increase, however they enable us to maintain continuity of production and will allow us to continually reduce the energy burden on our operations.

The energy prices combined with the high inflation rate are having impact also to other companies, resulting in price increases of other commodities, including services which indirectly influences our costs as well as the general household purchasing power which might accelerate the down-trading trend observed in the market.

Kutná Hora plant continues producing higher volumes, compensating the shortfall from PMI production suspension in Ukraine. In the first half of the year the production volume increased by 2 billion units compared to the same period in 2022.

Our company was able to effectively weather any employment related issues linked with the war in Ukraine. This includes but is not limited to offering employment and shelter to Ukrainian employees and their families in the Czech Republic and Slovakia. Considering the macro-economic factors such as rising energy costs and the increase of the consumer price index, we mindfully adjusted salaries across our entire employee base effective April 2023 to reduce the hardship employees would be facing.

There were no significant cyber security events or threat increases related to the Russia-Ukraine conflict observed.

Expected Economic and Financial Situation

After the COVID-19 induced economic shocks in 2020 and 2021, and initial shock triggered by Russian invasion of Ukraine in 2022, the first half of 2023 was notably impacted by additional effects of Russian invasion. Most notably, both the Czech Republic and Slovakia, were adversely hit by stagnating GDP and increasing inflationary pressures impacting the consumption patterns of households in both countries.

---

[12] Government Regulation No. 298/2022 Coll. on the determination of electricity and gas prices in an extraordinary market situation and on the determination of the related highest permissible range of the customer's property benefit.

According to the data from the Czech Statistical Office, the gross domestic product in first half of 2023 decreased in both quarters by 0.5pp and 0.6pp respectively versus prior year[13]. It is expected, for the full year 2023, the gross domestic product to remain flat[14]. Inflation improved versus the trend in the second half of 2022, declining sharply in June to 9.7%, however still above the long term CNB goal of 2%. Inflation deteriorated the real wages of households by 6.7% versus prior year[15], which led to subdued consumer consumption also impacting the total nicotine consumption in first half of 2023 and is expected to continue throughout 2023.

We expect a challenging macroeconomic environment (stagnating GDP, declining real disposable income of households) to continue in second half of 2023. Although certain macroeconomic factors show signs of recovery i.e., declining inflation, decreasing energy prices, we remain cautious for the rest of 2023.

Our business will remain exposed to consumer down-trading to cheaper cigarettes and other nicotine-delivery alternatives, as well as to an increase in cross border transactions.

The Delegated Directive 2022/2100 prohibiting tobacco flavouring for heated tobacco products and its components has been adopted by Czech Parliament and will enter into force on October 23, 2023. This new regulation is expected to impact significant portion of the consumer population of heated tobacco products and trigger new dynamics in composition of nicotine consumption. We are tirelessly working on providing the adult consumer a seamless alternative for uninterrupted experience.

We also remain committed to continuing to implement our planned productivity initiatives to manage our cost base and maximize the return on our investments.

Excise Tax

In the Czech Republic, Act no. 609/2020 Coll. amending certain tax acts and certain other acts amended also Act no. 353/2003 Coll. on excise taxes. This amendment came into force on February 1, 2021 and introduced a three-year calendar of tobacco excise tax increases for years 2021 to 2023. As of 1st January 2023, the specific component of the cigarette excise tax rate increased by CZK 90 to CZK 1,970 per 1,000 cigarettes. The minimum tax rate increased by CZK 160 to CZK 3,520 per 1,000 cigarettes. The ad valorem component of the cigarette excise tax remains unchanged (at 30%). The excise tax rate on fine-cut tobacco increased by CZK 140 to CZK 3,000 per 1 kg of tobacco. The excise tax rate on heated tobacco products increased by CZK 140 to CZK 3,000 per kg of tobacco. The above-mentioned excise tax increases are accompanied by a three-month retail sell-by-date anti-forestalling regulation applicable to cigarettes and a six-month retail sell-by-date anti-forestalling regulation applicable to heated tobacco products.

The government proposed to introduce a new four-year calendar of excise tax increases in years 2024-2027 and from 2024 to introduce an excise tax also on e-cigarettes, nicotine pouches and other tobacco and nicotine products which are currently not excisable. The draft is being currently discusses by the Parliament.

---

[13] *Source: Czech Statistical Office, ČSÚ (czso.cz)*
[14] *Source: Ministry of Finance (mfcr.cz)*
[15] *Source: Czech Statistical Office, ČSÚ (czso.cz)*

In Slovakia, Amendment to Act no. 106/2004 Coll. on Excise Duty on Tobacco Products was adopted and published as Act no. 390/2020 Coll. introducing a three-year fiscal roadmap from 2021 to 2023. As of February 1, 2022, the specific component for cigarettes increased from EUR 74.60 per 1,000 cigarettes to EUR 79.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes increased from EUR 116.50 to EUR 124.30 per 1,000 cigarettes. The ad valorem tax rate for cigarettes remained unchanged at 23%. The fine-cut tobacco excise tax rate increased from EUR 89.30 per 1 kg to EUR 95.30 per 1 kg and the excise tax rate for smokeless tobacco products increased from EUR 76.70 per 1 kg of tobacco to EUR 132,20 per 1 kg of tobacco.

In Slovakia there was another tax increase as of February 1, 2023. The specific excise tax rate for cigarettes increased to EUR 84.60 per 1,000 cigarettes, the minimum excise tax rate for cigarettes increased to EUR 132.10 per 1,000 cigarettes, the fine-cut tobacco excise tax rate increased to EUR 101.30 per 1 kg and the excise tax rate for smokeless tobacco products increased to EUR 187,80 per 1 kg of tobacco. The excise tax increases were accompanied by a two-month retail sell-by-date regulation for cigarettes, six months for fine cut tobacco and three months for smokeless tobacco products.

Strong and Effective Regulation

Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o. support comprehensive regulation of tobacco and nicotine containing products based on the principle of harm reduction.

Technological and scientific developments of recent years make it possible to shift the tobacco and nicotine market towards a future in which cigarettes will be replaced by less harmful, smoke-free alternatives offered to those adult smokers who would otherwise continue to smoke. In this context, sensible, risk-based regulation of smoke-free tobacco products, combined with effective restrictions on combustible products, such as cigarettes, can help address the harm caused by smoking more effectively – and faster – in combination with traditional regulatory measures.

Regulations should continue to dissuade people from starting to smoke combustible products or use nicotine products and encourage cessation. But it is equally clear that millions of men and women will continue to smoke, and they should have access to better alternatives than cigarettes and information on them.

Tobacco Products Directive

Across the EU, the Tobacco Products Directive (2014/40/EU) entered into force on May 19, 2014, and became applicable in the EU Member States as of May 20, 2016.

In the Czech Republic, Act no. 180/2016 Coll. amending Act no. 110/1997 Coll. on foodstuffs and tobacco products and other related laws together with Decree no. 261/2016 Coll., which transpose the EU Tobacco Products Directive, came into force on September 7, 2016.

The legislation introduced new rules on – among others – the manufacturing, presentation and sale of tobacco and related products, including certain rules for the commercialization of e-cigarettes and novel tobacco products, such as a pre-launch notification requirement. In addition, the new legislation includes other measures such as enlarged, combined health warnings covering 65% of the main surfaces of cigarette packs and roll-your-own tobacco, as well as dedicated health warnings for other types of tobacco and related products, enhanced reporting obligations, a ban on tobacco products with characterizing flavours (currently applicable to cigarettes and roll-your-own tobacco), and a new set of requirements related to the tracking and tracing of tobacco products in order to enhance the effectiveness of illicit trade prevention.

Furthermore, the Tobacco Products Directive regulates e-cigarettes as consumer goods rather than as medicinal products. If e-cigarettes qualify as medicinal products, other EU rules will apply.

On November 23, 2022, Commission Delegated Directive 2022/2100 ("Directive 2022/2100") of June 29, 2022, amending Directive 2014/40/EU of the European Parliament and of the Council as regards the withdrawal of certain exemptions in respect of heated tobacco products, entered into force. Directive 2022/2100 extends the prohibition on placing on the market of tobacco products flavourings in any of their components, such as filters, papers, packages, capsules, or any technical features allowing modification of the smell or taste of the tobacco products concerned or their smoke intensity, which already exists for cigarettes and roll-your-own tobacco, to heated tobacco products.

On May 30, 2023, the Czech Parliament approved the Amendment to the Act No. 110/1997 Coll., on food and tobacco products, where the new provisions were transposed and will enter into force on October 23, 2023.

In Slovakia, the Tobacco Products Directive was transposed to the Slovak national legislation by Act no. 89/2016 Coll. on the manufacture, labelling and sale of tobacco products and related products and on the amendment and supplement to selected laws, effective as of May 20, 2016.

The new provisions of the Directive 2014/40/EU of the European Parliament and of the Council in regards of the withdrawal of certain exemptions in respect of heated tobacco products have not been transposed into Act no. 89/2016 Coll.[16] yet so Slovakia will not meet the entry into force date October 23, 2023 set by the European Commission's Delegated Directive.

In both countries, Czech Republic and Slovakia, the cigarettes with a menthol characterizing flavour, including menthol capsules, were allowed to be marketed until May 20, 2020. Tracking and tracing requirements entered into force on May 20, 2019, for cigarettes and roll-your-own tobacco. Other tobacco products will be subject to tracking and tracing as of May 20, 2024.

Single-Use Plastics Directive

EU Directive 2019/904 ("Single-Use Plastics Directive" or "the Directive") on the reduction of the impact of certain plastic products on the environment came into force on July 2, 2019, throughout the EU Member States. EU Member States, including the Czech Republic and Slovakia, were obliged to transpose its provisions into national legislation by July 3, 2021. In the Slovak Republic the Directive was transposed into national law effective December 1, 2021, and in the Czech Republic effective October 1, 2022.

The objectives of the Single-Use Plastics Directive are to prevent and reduce the impact of certain plastic products on the environment, in particular the aquatic environment, and on human health, as well as to promote the transition to a circular

[16] *Act no. 89/2016 Coll. of 25 November 2015 on the manufacture, labelling and sale of tobacco products and related products and on the amendment and supplement to selected laws.*

economy, with innovative and sustainable business models, products, and materials, thus also contributing to the efficient functioning of the internal market[17].

In order to achieve its objectives, the Directive introduces various measures for various types of goods. In the area of our business, the Directive concerns tobacco products with filters and filters marketed for use in combination with tobacco products. Specifically, under the Directive, Member States were required to introduce marking requirements on product packaging and implement Extended Producer Responsibility Schemes ("EPR"), which requires producers to contribute to costs associated with the cleaning and collection of littered tobacco post consumption waste in public, as well as to cost for awareness-raising measures designed to inform consumers to correctly dispose of cigarette butts and thereby reduce litter. Measures are being implemented gradually in several stages with EPR fully in place in the EU Member States by January 5, 2023. In the Czech Republic the effective date for EPR for producers of tobacco products with filters is January 1st, 2023, while in Slovakia it is December 1, 2024.

In order to ensure the collective fulfilment of the obligations of manufacturers of tobacco products with filters and filters placed on the market for use in combination with tobacco products in the territory of the Czech Republic, Philip Morris ČR a.s., in accordance with the requirements of Act No. 243/2022 Coll.[18] , became one of the founders of joint-stock company NEVAJGLUJ a.s. (hereinafter referred to as "NEVAJGLUJ") with a stake of 24%. NEVAJGLUJ was registered in the Commercial Register in March 2023, and in July 2023 it submitted an application to the Ministry of the Environment of the Czech Republic for authorization to operate a collective system (EPR system), which included a proposal for the method of calculating the reimbursement of the costs of municipalities for ensuring activities associated with the cleaning and collection of littered tobacco products with a filter after their consumption in public spaces. We anticipate that the authorization could be granted to NEVAJGLUJ by the end of the Q3 2023. Specific costs which Philip Morris ČR a.s. will have to bear in relation to the EPR system are expected to be around CZK 30 million by the end of the year 2023.

Sustainability and Social Responsibility

Sustainability is core to the transformation of PMI, Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o.

The PMI's approach to sustainability is focused on developing strategies that can successfully address environmental, social and governance issues. As part of the global assessment of the importance of topics related to sustainability (Sustainability Materiality Assessment), certain topics were identified as priority. PMI's strategy embodies the notion of two distinct views of social and environmental impact from two different angles – the impact generated by our products (what we produce) and the impact generated by our business operations (how we produce it). Our ambition is to be a true leader in sustainable business practices. It also represents an opportunity for growth and our strongest competitive advantage.

The biggest and most pressing issue that PMI's strategy addresses is the health effects of cigarette smoking. This is the most important contribution we can make to public health and is a cornerstone of the PMI's purpose and business strategy, as our long-term and overarching goal is a smoke-free future. Through ground-breaking research, PMI has developed a range of smoke-free products that are enjoyable for adult smokers and have the potential to significantly reduce health risks when compared to smoking cigarettes. We are working to achieve a smoke-free future and replace cigarettes with

[17] Article 1 of the Directive 2019/904 of June 5,2019 on the reduction of the impact of certain plastic products on the environment.
[18] Act No. 243/2022 Coll. on the reduction of the impact of certain plastic products on the environment.

these less harmful alternatives completely. Even though our product, and transformation of our business as such, is at the centre of our sustainability efforts, we cannot omit other pillars – driving operational excellence, managing our social impact, and reducing our environmental impact.

In the Czech Republic and Slovakia, we are aligned with the global approach. In 2022 we went through local validation of the global Sustainability Materiality Assessment (SMA) to tailor the local strategy to local circumstances and needs. For us, sustainability means creating long-term value while minimizing the negative impacts associated with our products, operations and value chain and maximizing the positive impact we have on the world around us.

In 2023 we continue with activities designed based on SMA, among others with our Device Take Back or Consumables Take Back programs to ensure proper recycling of electronic devices within the framework of the PMI CIRCLE project and take care of used heated tobacco units.

We understand that maximizing shareholder value is no longer acceptable as a company's sole purpose. We recognize the importance of creating value for a diverse group of stakeholders, including employees, customers, suppliers, and communities.

Regarding social contributions, for more than 30 years, Philip Morris ČR a.s. has been contributing significantly to charitable projects across a wide range of organizations and specializations. There are four principal areas of support at the Czech market: education; care for carers; chance for a quality life; and environmental issues. Moreover, there is a special program area aimed at mitigating the consequences of disasters or efforts to prevent them. Our traditional long-term partners, implementing their projects with our financial support, include, among others, the Slunce pro všechny Endowment Fund and the Livia and Václav Klaus Endowment Fund, in the field of projects focused on education. A remarkable program is also the support of innovations in the development and use of alternative communication, implemented by the Regional Charity Červený Kostelec, organization with the only inpatient facility in the Czech Republic, caring for people diagnosed with multiple sclerosis in the Home of St. Joseph in Žireč City.

Another important long-term partner is the Charter 77 Foundation, not only in supporting the elderly or the seriously ill people, but in the past years helping to prevent the spread of coronavirus and mitigate the effects of the COVID-19 pandemic that has afflicted the world. The Charter 77 Foundation has also become our partner in the effort to help refugees from Ukraine who find refuge in the Czech Republic.

In the field of the environment, we cooperate with the POD HORAMI association for several years, which is focused on education of children in the field of environmental care. We also financially support the organization BENEDIKTUS z.s. (community of people with and without intellectual disabilities), to build a rainwater retention system in their gardens and orchards.

We are very happy and proud that our support helps both at the national and local level, and thus we can contribute to better and more sustainable living conditions for many people.

In Slovakia, once again in 2023, we provided a grant to the Pontis Foundation and its re-grantees for the project Raising the Roof 2023, focused on solving the issue of homelessness as a state of extreme removal from society. This requires the upkeep of the existing projects of professional help giving people a real chance to stand on their own feet again and find adequate housing (OZ Vagus) and also deal with the public perception of this issue (Theatre With No Home). Since 2019, the program has expanded to include other socially excluded groups – namely children with health disabilities and coming from a socially disadvantaged environment (Black and White Horse, Stopy Snov), as well as the topics of gender equality and economic opportunities (Nadace Cvernovka).

We also supported our long-term grantee Divé Maky, their project Young Roma Leaders 3 is aimed at the continuous preparation of young Roma leaders for advocacy activities towards the authorities through leadership training and mentoring. Among our long-term grantees, we supported two new organizations with General operating support – Rozmanita o.z. and Nadačný fond TU SME. Rozmanita is a non-profit organization building a model for diverse and inclusive schools in Slovakia. Their vision is to contribute to a capable, fair and sustainable society for everyone by creating safer and more inclusive educational spaces in public schools for all children, including those from various minorities. The main activities of the non-investment fund TU SME include the implementation of programs aimed at the integration and inclusion of citizens with disabilities into society. They create conditions for supported employment of citizens with altered work ability. Another activity supported by the fund is the education of professional and voluntary workers who participate in the creation of programs, as well as educational and publication activities for the benefit of people with disabilities. When possible, Philip Morris Slovakia s.r.o. provides also In-kind donations. In 2023, we donated 200 second hand tablets to beneficiaries of Pontis n.o. to help them with education.

Philip Morris Slovakia s.r.o. organized clothes collection among its employees. Collected clothes and other necessities were donated to Centrum pre deti a rodiny Bernolákovo and to Gaudeamus - community rehabilitation facility. In June 2023, our colleagues once again participated in volunteering activity Naše Mesto (Our City). We volunteered in 4 cities/ towns across Slovakia – in Žilina, Nitra, Trnava and Bratislava.

Further information about local sustainability and social contributions is available in the separate brochure **2022 Sustainability and Responsible entrepreneurship of Philip Morris ČR a.s. & Philip Morris Slovakia s.r.o.**, accessible at www.philipmorris.cz as of September 2023. Similarly, on global level the **Integrated Report 2022 of Philip Morris International Inc.** was published in April 2023 and is accessible at www.pmi.com/sustainability.

Forward-Looking and Cautionary Statements

This report and related communications contain, and Philip Morris ČR a.s. may from time to time make, written or oral forward-looking statements, including statements contained in filings with the Czech National Bank or other authorities, in reports to shareholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as “strategy,” “expects,” “continues,” “plans,” “anticipates,” “believes,” “will,” “estimates,” “intends,” “projects,” “goals,” “targets” and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

Philip Morris ČR a.s. cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties, and inaccurate assumptions. Should any known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in Philip Morris ČR a.s. securities.

This 2023 Mid-year Financial Report of Philip Morris ČR a.s. is based on the condensed interim consolidated financial statements of Philip Morris ČR a.s. and Philip Morris Slovakia s.r.o., prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Financial information included in this 2023 Mid-year Financial Report of Philip Morris ČR a.s. for the half-year ended June 30, 2023, are not reviewed by the auditor.

CONDENSED INTERIM

CONSOLIDATED FINANCIAL STATEMENTS

Condensed Interim Consolidated Statement of Financial Position

at June 30, 2023 (in CZK million)

ASSETS	Note	30/06/2023	31/12/2022
Property, plant and equipment ("PP&E")	7	2,845	2,783
Right-of-use assets	8	324	282
Intangible assets		2	2
Deferred tax assets		33	50
Long-term financial investments		1	—
Other financial assets	10	108	109
Non-current assets		**3,313**	**3,226**
Inventories	9	2,148	1,851
Trade and other financial receivables	10	1,308	1,548
Other non-financial assets	10	3,275	2,111
Current income tax receivable		98	34
Cash and cash equivalents	11	5,037	7,631
Current assets		**11,866**	**13,175**
Total assets		**15,179**	**16,401**

EQUITY & LIABILITIES	Note	30/06/2023	31/12/2022
Registered capital		2,745	2,745
Share premium and other shareholders' contributions		2,371	2,383
Retained earnings		1,692	3,635
Other reserves		3	2
Equity attributable to the shareholders of the Company		**6,811**	**8,765**
Non-controlling interest		**—**	**1**
Total equity		**6,811**	**8,766**
Deferred tax liability		116	153
Lease liabilities	8	201	159
Non-current liabilities		**317**	**312**
Trade and other financial liabilities	12	3,832	2,871
Other non-financial liabilities	12	288	292
Current income tax liabilities		—	38
Other tax liabilities	13	3,799	3,985
Provisions		14	16
Lease liabilities	8	118	121
Current liabilities		**8,051**	**7,323**
Total liabilities		**8,368**	**7,635**
Total equity & liabilities		**15,179**	**16,401**

The accompanying notes form an integral part of the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Comprehensive Income

for the half-year ended June 30, 2023 (in CZK million)

	Note	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Revenues	6	9,711	9,810
Cost of sales	14	(5,493)	(5,351)
Gross profit		**4,218**	**4,459**
Distribution expenses	14	(1,435)	(1,444)
Administrative expenses	14	(943)	(819)
Other operating income		84	171
Other operating expense		(98)	(248)
Profit from operations		**1,826**	**2,119**
Financial expense	6	(39)	(26)
Financial income	6	230	173
Profit before income tax		**2,017**	**2,266**
Income tax expense		(364)	(436)
Net profit for the mid-year		**1,653**	**1,830**
Attributable to:			
Owners of the parent		1,653	1,830
Non-controlling interest		—	—
Other comprehensive income		**1**	**1**
Currency translation adjustments		1	1
Total comprehensive income for the mid-year		**1,654**	**1,831**
Attributable to:			
Owners of the parent		1,654	1,831
Non-controlling interest		—	—
Earnings per share basic and diluted (CZK/share)		**602**	**666**

The Currency translation adjustments will be reclassified subsequently to profit or loss when specific conditions are met.

The accompanying notes form an integral part of the condensed interim consolidated financial statement.

Condensed Interim Consolidated Statement of Changes in Equity

for the half-year ended June 30, 2023 (in CZK million)

		Attributable to equity holders of the Company						
	Note	Registered capital	premium and other shareholders’ contribution	Statutory reserve fund	Cumulative translation adjustments	Retained earnings	Non-controlling interest	Total equity
Balance as at 1/1/2022		**2,745**	**2,371**	**2**	**—**	**3,598**	**1**	**8,717**
Net profit for the year		—	—	—	—	1,830	—	**1,830**
Currency translation adjustments		—	—	—	—	—	—	**—**
Total comprehensive income for the mid-year		**—**	**—**	**—**	**—**	**1,830**	**—**	**1,830**
Transactions with owners								**—**
Profit distribution	15	—	—	—	—	(3,596)	(1)	**(3,597)**
Share based payments		—	2	—	—	—	—	**2**
Forfeited dividends		—	—	—	—	1	—	**1**
Other		—	—	—	—	(2)	—	**(2)**
Balance as at 30/06/2022 (unaudited)		**2,745**	**2,373**	**2**	**—**	**1,831**	**—**	**6,951**
Balance as at 01/01/2023		**2,745**	**2,383**	**2**	**—**	**3,635**	**1**	**8,766**
Net profit for the mid-year		—	—	—	—	1,653	—	**1,653**
Currency translation adjustments		—	—	—	1	—	—	**1**
Total comprehensive income for the mid-year		**—**	**—**	**—**	**1**	**1,653**	**—**	**1,654**
Transactions with owners								
Profit distribution	15	—	—	—	—	(3,596)	(1)	**(3,597)**
Share based payments		—	(12)	—	—	—	—	**(12)**
Forfeited dividends		—	—	—	—	3	—	**3**
Other		—	—	—	—	(3)	—	**(3)**
Balance as at 30/06/2023 (unaudited)		**2,745**	**2,371**	**2**	**1**	**1,692**	**—**	**6,811**

The accompanying notes form an integral part of the condensed interim consolidated financial statements

Condensed Interim Consolidated Cash Flow Statement

for the half-year ended June 30, 2023 (in CZK million)

	Note	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Cash flow from operating activities			
Profit before tax		**2,017**	**2,266**
Depreciation and amortization expense	14	317	318
Impairment loss and loss on disposal of PP&E	7	30	28
Net interest (income) / expense		(192)	(147)
Gain on disposal of PP&E		(2)	(1)
Change in provisions		(2)	(15)
Other non-cash transactions, net		(7)	13
Operating cash flows before working capital changes		**2,161**	**2,462**
Changes in:			
Trade and other financial receivables and other non-financial assets		(925)	(1,069)
Trade and other financial liabilities and other non-financial liabilities		(668)	(1,203)
Inventories		(298)	1,100
Cash generated from operations		**270**	**1,290**
Interest paid	6	(39)	(26)
Income tax paid		(502)	(456)
Net cash generated from operating activities		**(271)**	**808**
Cash flow from investing activities			
Purchase of PP&E	7	(328)	(348)
Proceeds from sale of PP&E		31	28
Purchase of intangible assets		—	—
Interest received	6	230	173
Net cash used by investing activities		**(67)**	**(147)**
Cash flow from financing activities			
Dividends paid to owners of the parent	15	(2,204)	(1,306)
Dividends paid to non-controlling interest		(1)	—
Repayments of principle portion of lease liability		(39)	(63)
Net cash used by financing activities		**(2,244)**	**(1,369)**
Net increase in cash and cash equivalents		**(2,582)**	**(708)**
Cash and cash equivalents as at the beginning of the year	**11**	**7,631**	**9,290**
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(12)	(5)
Cash and cash equivalents as at the end of the mid-year	**11**	**5,037**	**8,577**

The accompanying notes form an integral part of the condensed interim consolidated financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

for the half-year ended June 30, 2023

1. GENERAL INFORMATION

Philip Morris ČR a.s. (the "Company") and its subsidiary Philip Morris Slovakia s.r.o. (the "Subsidiary") (together the "Group") produces, sells, distributes and markets tobacco products. The Company has a 99% interest in Philip Morris Slovakia s.r.o.

Philip Morris ČR a.s. is a joint-stock company registered in the Czech Republic. The Company was incorporated on March 28, 1991 and its registered address is Kutná Hora, Vítězná 1, Czech Republic. Its headquarters is in Prague and its manufacturing facility is in Kutná Hora.

Philip Morris ČR a.s. is an affiliate of Philip Morris International Inc. ("PMI"). As at June 30, 2023, Philip Morris International Inc. is the ultimate controlling party of the Group.

As at June 30, 2023, the only entity directly holding more than 20% of the registered capital of the Group was Philip Morris Holland Holdings B.V. (the "Parent company"), which held 77.6% of the registered capital.

The Company has its primary listing on the Prague Stock Exchange (Burza cenných papírů Praha, a.s.), trading from July 13, 1993.

The Group's condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 26, 2023.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". They do not include all the information required for a complete set of IFRS financial statements. Accordingly, they should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these condensed interim consolidated financial statements are the same as those applied in the last annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

New standards, amendments and interpretations effective from January 1, 2023 do not have a material effect on the Company's financial statements.

4. ESTIMATES

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2022, with the exception of changes in estimates that are required in determining the provision for income taxes.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk including foreign exchange and interest rate risk, credit risk and liquidity risk. The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2022. There have been no changes in the risk management processes since Year-End 2022 or in any risk management policies.

5.2. Liquidity risk

Compared to Year-End 2022, there was no material change in the contractual undiscounted cash out flows or financial liabilities.

6. SEGMENT REPORTING

An operating segment is a component of an entity that earns revenues and incurs expenses and whose financial results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and assessment of performance. The chief operating decision-maker has been identified as the Group's management team.

The Group's management monitors performance with reference to the type of business activity in combination with the geographical area covered by the Group's operations. The Group's reportable segments are the Manufacturing Service related activities and the Distribution related activities further allocated by markets to Czech Republic and Slovak Republic.

For the decision making and resource allocation purposes the Group's management team reviews management profit from operations. Management profit from operations in segment reporting excludes other non-allocated operating income/expense, interest income/expense and provision for income taxes, as these are centrally managed and accordingly such items are not presented by segment since they are not regularly provided by segment to the Group's management team.

Information about total assets by segment is not disclosed because such information is not reported to or used by the Group's management team.

The segment results for the period ended June 30, 2023 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	6,765	2,557	—	9,322
Inter-segment revenues	(912)	—	—	(912)
Services provided	13	—	1,288	1,301
External revenues	**5,866**	**2,557**	**1,288**	**9,711**
Management gross profit	2,826	1,485	871	5,182
Management profit from operations	1,108	697	35	1,840

The segment results for the period ended June 30, 2022 are as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
Total gross segment revenues	7,015	2,789	—	9,804
Inter-segment revenues	(1,113)	—	—	(1,113)
Services provided	18	—	1,101	1,119
External revenues	**5,920**	**2,789**	**1,101**	**9,810**
Management gross profit	2,881	1,670	740	5,291
Management profit from operations	1,256	857	83	2,196

A reconciliation of management gross profit to gross profit is provided as follows:

(in CZK million)	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Management gross profit	**5,182**	**5,291**
Royalties	(256)	(272)
Fixed manufacturing expenses	(708)	(560)
Gross profit	**4,218**	**4,459**

Royalties and fixed manufacturing expenses are for the purpose of Group's management team review excluded from management gross profit, but these amounts are deducted when determining profit from operation.

A reconciliation of management profit from operations to profit before income tax is provided as follows:

(in CZK million)	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Management profit from operation	**1,840**	**2,196**
Other operating income / (expense), net	(14)	(77)
Interest income	230	173
Interest expense	(39)	(26)
Profit before tax	**2,017**	**2,266**

Depreciation, amortization and impairment charge included in management profit from operations allocated to individual segments in 2023 and 2022 is as follows:

(in CZK million)	Czech Republic (Distribution)	Slovak Republic (Distribution)	Manufacturing Service	Total
2023	36	20	291	**347**
2022	31	19	296	**346**

Revenues are derived from sales of tobacco products and services. Breakdown of the revenues is as follows:

(in CZK million)	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Sales of merchandise	8,410	8,691
Sales of services	1,301	1,119
Total	**9,711**	**9,810**

Revenue analysis by timing of revenue recognition:

(in CZK million)	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Sales recognized at time of shipment	8,410	8,691
Revenues recognized over time	1,301	1,119
Total	**9,711**	**9,810**

Revenues from customers or groups of customers under common control exceeding 10% of the Group's revenues: revenue of CZK 2,630 million (2022: CZK 2,725 million) derived from one customer is included in segment Czech Republic (distribution) and revenue of CZK 1,288 million (2022: CZK 1,101 million) derived from the PMI group of companies is included in segment Manufacturing Services.

The total of the Group's non-current assets, other than deferred tax assets and other financial assets, located in the Czech Republic is CZK 3,073 million (at December 31, 2022: CZK 2,960 million) from which CZK 2,912 million is used to support Manufacturing service related activities (at December 31, 2022: CZK 2,804 million) and CZK 162 million to support Distribution related activities (at December 31, 2022: CZK 156 million) and those located in Slovak Republic supporting only Distribution activities is CZK 98 million (at December 31, 2022: CZK 106million).

7. PROPERTY, PLANT AND EQUIPMENT

(in CZK million)	Property, Buildings & Constructions	Vehicles & Machinery Equipment	Furniture & Fixtures	Constructions in progress & Advances paid	Total
As at 1/1/2022					
Cost	2,265	6,483	76	493	9,317
Accumulated depreciation	(1,902)	(4,530)	(53)	—	(6,485)
Net carrying amount	**363**	**1,953**	**23**	**493**	**2,832**
Six months ended 30/06/2022					
Opening net carrying amount	363	1,953	23	493	2,832
Additions cost	1	1	—	368	370
Disposal net carrying amount	—	(28)	—	—	(28)
Transfers*	—	235	—	(235)	—
Depreciation charge	(26)	(248)	(4)	—	(278)
Closing net carrying amount	**338**	**1,913**	**19**	**626**	**2,896**
As at 30/06/2022					
Cost	2,266	6,558	77	626	9,527
Accumulated depreciation	(1,928)	(4,645)	(58)	—	(6,631)
Net carrying amount	**338**	**1,913**	**19**	**626**	**2,896**
As at 1/1/2023					
Cost	2,301	7,008	77	284	9,670
Accumulated depreciation	(1,953)	(4,875)	(59)	—	(6,887)
Net carrying amount	**348**	**2,133**	**18**	**284**	**2,783**
Six months ended 30/06/2023					
Opening net carrying amount	348	2,133	18	284	2,783
Additions cost	6	171	7	186	370
Disposal net carrying amount	—	(30)	—	—	(30)
Transfers*	32	78	3	(113)	—
Depreciation charge	(27)	(247)	(4)	—	(278)
Closing net carrying amount	**359**	**2,105**	**24**	**357**	**2,845**
As at 30/06/2023					
Cost	2,339	7,103	87	357	9,886
Accumulated depreciation	(1,980)	(4,998)	(63)	—	(7,041)
Net carrying amount	**359**	**2,105**	**24**	**357**	**2,845**

** Transfers represent capitalization of PP&E from construction in progress and advances paid.*

During the reporting period, the Group retired some machinery and equipment that it identified as no longer needed and approved their retirement at a residual value of CZK 1 million (2022: CZK 2million).

All investments in property, plant and equipment were financed by the Group's own resources.

8. LEASES

The recognised right-of-use assets relate to following types of assets:

(in CZK million)	30/06/2023	31/12/2022
Office space and warehouse	178	126
Cars	54	59
Store	79	80
Employee flats	13	17
Total	**324**	**282**

The recognised lease liabilities relate to following types of liabilities:

(in CZK million)	30/06/2023	31/12/2022
Current liabilities	118	121
Non-current liabilities	201	159
Total	**319**	**280**

Interest expense on lease liabilities included in finance costs represented amount CZK 3 million (2022: CZK 3 million). Depreciation expense of right-of-use assets represented amount CZK 70 million (2022: CZK 67 million).

Short-term leases and leases for which the underlying asset is of low-value do not have a material effect on the condensed interim consolidated financial statements.

Maturity analysis	<1 year	1-5 years	>5 years
Lease liabilities	118	127	74

9. INVENTORIES

(in CZK million)	30/06/2023	31/12/2022
Materials	86	77
Merchandise	2,062	1,774
Total	**2,148**	**1,851**

The costs of inventories recognized as an expense in Condensed Interim Consolidated statement of comprehensive income in the first six months of 2023 and included in costs of sales amounted to CZK 4,529 million (2022: CZK 4,519 million).

10. TRADE AND OTHER FINANCIAL RECEIVABLES AND OTHER NON-FINANCIAL ASSETS

(in CZK million)	30/06/2023	31/12/2022
Trade and other financial receivables		
Third parties	1,248	1,436
Related parties	59	112
Other receivables	1	—
Total	**1,308**	**1,548**
Other non-financial assets		
Other assets - excise tax	3,235	2,075
Prepayments	38	36
Other assets	2	—
Total	**3,275**	**2,111**
Other non-current financial assets		
Other financial assets	108	109
Total	**108**	**109**

11. CASH AND CASH EQUIVALENTS

(in CZK million)	30/06/2023	31/12/2022
Cash on hand	4	3
Cash at banks	1,220	540
On-demand deposits with related parties (see Note 16)	3,813	7,088
Total	**5,037**	**7,631**

On-demand deposits with related parties are interest bearing short-term loans - see Note 16 for the analysis of short-term receivables from related parties.

Cash and cash equivalents and bank overdrafts for the purposes of the consolidated cash flow statement include the following:

(in CZK million)	30/06/2023	31/12/2022
Cash and cash equivalents	5,037	7,631
Total	**5,037**	**7,631**

12. TRADE AND OTHER FINANCIAL LIABILITIES AND OTHER NON-FINANCIAL LIABILITIES

(in CZK million)	30/06/2023	31/12/2022
Trade and other financial liabilities		
Third parties	922	917
Other related parties	573	1,101
Accrued expenses	751	746
Dividends payable	1,416	13
Other financial liabilities	170	94
Total	**3,832**	**2,871**
Other non-financial liabilities		
Amounts due to employees	191	194
Social security and health insurance	87	83
Advances received	—	5
Deferred revenues	9	—
Other liabilities	1	10
Total	**288**	**292**

Trade payables to related parties are disclosed in Note 16.

13. OTHER TAX LIABILITIES

(in CZK million)	30/06/2023	31/12/2022
VAT	554	665
Excise tax	3,229	3,300
Other taxes	16	20
Total	**3,799**	**3,985**

14. EXPENSES BY NATURE - ADDITIONAL INFORMATION

(in CZK million)	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Raw materials, consumables used and merchandise sold	4,522	4,476
Services	1,788	1,627
Royalties	256	272
Employee benefits expense	872	770
Depreciation and amortization	347	346
Other	86	123
Costs of sales, distribution and administrative expenses	**7,871**	**7,614**

15. PROFIT DISTRIBUTION

The dividends approved by the Annual General Meeting in April 2023 were CZK 3,597 million (CZK 1 310 per share).

The dividends approved outside General Meeting („per rollam“) between April and May 2022 were CZK 3,597 million (CZK 1 310 per share).

16. RELATED PARTY TRANSACTIONS

The Group considers Parent company and other companies of the PMI group of companies (“Other related parties”), members of its Board of Directors, Supervisory Board and parties close to such members of management to be related parties.

Related party transactions were made on terms equivalent to those that prevail in arm’s length transactions are made only if such terms can be substantiated.

The following transactions were carried out with related parties:

a) Sales of goods, merchandise and services to affiliates within PMI

(in CZK million)	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Sales of merchandise		
Other related parties	57	19
Sales of materials		
Other related parties	3	1
Sales of PP&E		
Other related parties	32	49
Sales of services		
Other related parties	1,301	1,119
Recharges		
Other related parties	5	3
Interest Income		
Other related parties	223	150
Total	**1,621**	**1,341**

b) Purchases of merchandise and services from affiliates within PMI

(in CZK million)	01/01/2023 - 30/06/2023	01/01/2022 - 30/06/2022
Purchases of merchandise and materials		
Other related parties	4,617	3,265
Purchases of PP&E and intangible assets		
Other related parties	62	181
Purchases of services		
Other related parties	643	515
Royalties paid		
Other related parties	256	272
Interest expense		
Other related parties	6	—
Total	**5,584**	**4,233**

c) Dividends

In 2023 Company paid to Philip Morris Holland Holdings B.V. dividends CZK 1,398 million in total. The remaining part of the dividend will be paid by the end of 2023. The dividends paid to Philip Morris Holland Holdings B.V. in 2022 amounted to CZK 2,790 million.

Except for dividends there were no other transactions with the Parent company during the last two years.

d) Balances with affiliates within PMI

(in CZK million)	30/06/2023	31/12/2022
Receivables from related parties		
Other related parties	59	112
Total	**59**	**112**
Payables to related parties		
Other related parties	573	1,101
Loans and deposits		
Other related parties	3,813	7,088
Dividends payable		
Other related parties	1,392	—
Total	**5,778**	**8,189**

Loans and deposits with related parties include interest-bearing on-demand deposits (cash pool) of CZK 3,813 million with Philip Morris Finance S.A. (At December 31, 2022: CZK 7,088 million). All short-term loans and deposits are classified as cash and cash equivalents in the Group's consolidated statement of financial position as at June 30, 2023 and as at December 31, 2022.

The interest rate for on-demand deposits in Czech Republic is calculated based on CZBRREPO with variable margin. The interest rate for on-demand deposits in the Slovak Republic is calculated based on ESTR with variable margin.

The actual interest rates reflect the current money market and the nature of the loan. The average effective interest rate of short-term loan and on-demand deposits for the half-year ended June 30, 2023 was 6.90% p.a. (at June 30,2022: 4.50% p.a.) in the Czech Republic and 3,03 % p.a. (at June 30, 2022: 0,01 %p.a.) in the Slovak Republic.

e) Contractual and other commitments to related parties

Contractual and other commitments to related parties that are not recorded in the condensed interim consolidated financial statements are considered as obligations to exchange resources in the future under binding agreements.

As at June 30, 2023, the Group had no material commitments in respect of related parties except for the future obligation to services purchase in the total estimated value of CZK 474 million (commitment value as at December 31, 2022: CZK 459 million).

The Group entered in the past into a number of binding service agreements, under which some performance obligations are yet to be delivered. Those agreements mostly have two or six month termination notice. The total estimated value of services to be purchased under these agreements during their respective termination terms is disclosed above.

According to the agreements with trademark owners, Philip Morris Global Brands Inc., Philip Morris Products S.A. and CTPM International S.A., the Group has to pay royalties in respect of tobacco products sold in the Czech and Slovak Republic. During the first half-year ended June 30, 2023, the Group incurred under these agreements royalties expense of CZK 256 million (2022: CZK 272 million). These agreements shall continue indefinitely until terminated by either party. Management expects the royalty expense in 2023 to be at approximately similar level as in 2022.

17. CONTINGENT LIABILITIES

The Group does not have any pending legal, administrative or arbitration proceedings that had or might have a substantial effect on the financial situation of the Group.

18. SUBSEQUENT EVENTS

No subsequent events have occurred after June 30, 2023. that would have a material impact on these condensed interim consolidated financial statements at June 30, 2023.

Authorization of the financial statements

These condensed interim consolidated financial statements for the period ended June 30, 2023 were authorized for issue by the Board of Directors and have been signed below on its behalf.

In Kutná Hora on September 26, 2023

Andrea Gontkovičová
Chairperson of the Board of Directors

Anton Stankov
Member of the Board of Directors

SÍDLO SPOLEČNOSTI / REGISTERED ADDRESS
Philip Morris ČR a.s.
Vítězná 1, 284 03 Kutná Hora
VEDENÍ SPOLEČNOSTI / HEADQUARTERS
Karlovo náměstí 10, 120 00 Praha 2
TEL.: (+420) 266 702 111
FAX: (+420) 266 702 333
IČO: 14803534
ISIN: CS000848869
LEI: 315700LNPHNXCMNLQC73
Společnost zapsaná v obchodním rejstříku vedeném u Městského soudu v Praze pod značkou B 627.